

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

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April 12, 2010

Elaine M. Howle, CPA
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

RE: Preparedness Audit of CSD for Administration of Recovery Act Programs, 60-Day Update

Dear Ms. Howle:

I am pleased to report that the Department of Community Services and Development (CSD) has made considerable progress in the months since the above referenced audit was conducted, both in respect to the implementation of the American Recovery and Reinvestment Act (ARRA) programs for which we are responsible, and in addressing the findings in your report. Indeed, much of our progress can be attributed to the audit process itself, the need for internal review and self-examination, as well as the insights and suggestions of your audit team.

This 60-day update will address two salient issues: 1) the current status of the programs; and 2) CSD's progress to date in applying the Bureau of State Audits' (BSA's) recommendations and addressing the audit findings. While the focus of this update will be on current status, in order to have a clear picture of the current status it is important to understand changes in circumstances that have occurred in the U.S. Department of Energy Weatherization Assistance Program (DOE WAP) since the audit was conducted.

This update will first examine the status of DOE WAP programs and achievements to date, along with an overview of CSD's monitoring plan for ARRA programs as discussed in the BSA's recommendations. Attached as Exhibits A and B, respectively are the *DOE ARRA Unit Production Work plan* and the *DOE ARRA Contract Progress Quarterly Report*. These exhibits support the statements in the aforementioned section. Next, our response will address the BSA's recommendations for the Community Services Block Grant (CSBG) ARRA program, focusing particularly on actions and / or action plans to improve documentation and tracking of monitoring findings. Key ARRA and CSBG monitoring documents, including the *2010 CSBG and CSBG ARRA Preliminary Monitoring schedule*, the *CSBG Onsite Monitoring Tool*, the *OCS Risk Management Template*, and the *OCS ARRA Risk Assessment Template*, are attached as Exhibits C, D, E, and F respectively. Finally, the response examines CSD's progress in implementing the BSA's recommendations for the documentation of fiscal procedures. Also attached as Exhibit G is the vendor *Project Proposal / Scope of Work* from CPS

Human Resource Services that will be working with CSD on documenting business processes and procedures.

STATUS OF DOE ARRA WAP EFFORTS

CSD's deliberate approach to implementation of ARRA programs—addressing providers' concerns and ensuring that the necessary federal guidance was obtained to avoid Davis-Bacon liability—built a solid base from which our provider network is moving forward. Obtaining clear federal guidance on the prevailing wage requirements for ARRA was the principle cause of the initial delay in the contracting process that plagued not only California but many other states as well.¹

Production Milestones

As providers executed their contracts during the months of January and February, production began in earnest. To date, 32 contracts have been executed out of 41 currently designated ARRA Weatherization service areas in the state.² Please note: the total number of 32 contracts represents service areas and / or contracts that were consolidated since January 2010 (Santa Clara County (North & South) consolidated into a single area contract with Sacred Heart; Los Angeles (Areas B & D) consolidated into a single area contract with Maravilla; Humboldt and Modoc Counties consolidated into one contract with Redwood CAA). The remaining nine contracts include five pending execution and four in advanced stages of negotiation (see footnote 2 for more detail). Some providers, including Maravilla Foundation, the state's largest, have only recently executed their contracts and are just now commencing production. CSD expects these new contracts with large providers to deliver production numbers quickly, ensuring that CSD will meet or exceed production goals.

Additionally, CSD has developed a plan to expedite production by shifting focus of marketing and outreach strategies to multi-unit projects, and reallocating funding from service areas with underperforming or unprepared agencies to those areas with excess production capacity. The DOE ARRA Compliance Monitoring and Performance process for review of underperforming agencies will be discussed in detail on Page 3 of this letter.

In the past few months CSD has pursued an aggressive strategy to identify potential providers for the service areas not under contract, including Los Angeles Service Area A and the San Francisco Bay Area. The City of San Francisco, the City of Oakland and the Los Angeles Department of Water and Power are currently in advanced contract

¹ See DOE OIG / OAS Special Report, Feb. 2010, "Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act," 2 - 3.

² These totals reflect changes to date in the status of service provider designations since CSD's initial response to the BSA's audit in January 2010. Modoc County is now served by Redwood CAA and Santa Clara County, previously covered by two agencies, is now under the purview of one agency, Sacred Heart Community Services

negotiations with CSD and are expected to complete the process during the next two months.³ Additionally, a contract with an existing Alpine / El Dorado County provider is anticipated to be executed in April 2010.⁴ Five other DOE ARRA contracts are pending execution upon the providers' return of the contract documents.

As previously stated in CSD's January 25th response to the BSA, the Department is on target to reach its September 30, 2010 production milestone of 12,900 weatherized homes.

As of March 31, 2010, the number of dwellings weatherized in California totaled 2,934, with an additional 1,174 units in process and 1,864 units assessed and scheduled for production. This production total represents approximately 75% of the quarterly goal of 3,912 units, and reflects the contribution of two-thirds of the providers currently under contract. Please note: DOE has modified its reporting requirements to including the category "*Units Completed /Not Reported*" to be added with the category "*Units Completed/ Reported*" to reflect the total number of weatherized units in each state. CSD has added the required category to the attached *Quarterly Report*, Exhibit B.

Providers with recently executed contracts are gaining momentum, and the above-mentioned large municipal providers come online between late May and June 2010 (See Exhibit B, *Quarterly Report*). CSD anticipates rapid absorption of this production differential as focus shifts from contract negotiation to production. The attached *Unit Production Work Plan* at Exhibit A shows projected production levels for areas under contract, as well as for areas not yet contracted. CSD is aggressively monitoring providers to the Production Work Plan.

DOE ARRA Compliance Monitoring and Performance Requirements

CSD's DOE ARRA State Plan requires that monitoring consist of third-party inspections, annual onsite program visits, quarterly desk reviews, fiscal monitoring, and visits as needed to respond to special issues. CSD is carrying out the monitoring and inspection protocol as set forth in the DOE-approved State Plan.

Key monitoring actions completed and / or scheduled are as follows:

Third-party inspections: By May 2010, CSD will execute a contract with a third-party vendor to perform field inspections of at least 5% of completed dwelling units to satisfy ARRA requirements, with an expanded scope of work evaluating the essential components of the weatherization program.

³ CSD is finalizing contract negotiations with these providers and anticipates execution of the contracts by the following dates: City of San Francisco – May 2010; City of Los Angeles and City of Oakland – June 30, 2010.

⁴ Project Go, anticipated contract execution date April 15, 2010.

Onsite program monitoring:

- January – February 2010: CSD recruited three Field Representatives and a Manager, expanding the Field Operations unit to respond to ARRA monitoring requirements.
- February / March 2010: CSD recruited three Davis-Bacon analysts, and redirected an analyst to focus on Davis-Bacon compliance. These analysts will focus exclusively on Davis-Bacon compliance issues through evaluation of certified payrolls and conducting onsite visits.
- March 2010: CSD implemented a performance-based risk assessment to identify agencies that may not meet their 30% production goal by September 30, 2010. CSD will complete the risk assessment review by mid-April to identify agencies that require follow-up.
- May 2010: CSD will conduct onsite monitoring of agencies identified as having potential performance issues, to proactively address concerns with the Executive Director and develop mitigation plans.
- July – December 2010: CSD Field Representatives will conduct at least one comprehensive program monitoring of all DOE ARRA providers using the existing core monitoring program, plus evaluating quality assurance programs and performance.⁵
- Ongoing: CSD partners with the Office of the California Inspector General Laura N. Chick to review underperforming agencies and ensure the agencies are using Recovery Act funds to perform weatherization.

Fiscal monitoring: CSD will perform annual reviews of the latest single-wide audits for compliance with A-133. Onsite audits will be performed to evaluate the contractor's accounting systems and fiscal integrity. CSD is negotiating a Memorandum of Understanding with the Department of Finance to increase the capacity of CSD's Audit Services unit in completing these reviews.

Special / enforcement monitoring: CSD field representatives will continue to conduct additional onsite visits as needed to follow up on monitoring findings and investigate complaints, as well as to identify under- or non-performing agencies.

Advance Payment Practices

Per CSD's request, DOE provided the Department with guidance as to practices adopted by other states for issuing contract advances, and is evaluating CSD's contract advance

⁵ Monitoring standards for quality assurance programs are under development and will be completed by June 2010.

payment policies for compliance with federal rules. In the meantime, DOE has informed CSD that other states have adopted more liberal practices for issuing advance payments, even deferring repayment to the final month of the contract in some cases. Therefore CSD's current advance payment policies are actually more stringent than what other states require of their DOE ARRA contractors. Upon completion of DOE's evaluation of CSD's contract advance policies, CSD will take any additional steps necessary to ensure that the policies are fully compliant with applicable regulations.

Energy Audit / Weatherization Measure Approval

CSD has made solid progress toward completing the complex, technical tasks involved in selecting an energy-audit and 'determination of priority measure' list. The Department has finalized selection of a new energy-audit software tool and has completed the analysis and energy efficiency calculations required of each measure. CSD anticipates completion of the sample audit testing and post analysis by April 30, 2010.

IMPROVED CSBG ARRA MONITORING PRACTICES

Unlike DOE WAP where production levels and contractual issues were of concern to the BSA audit team, the ARRA Community Services Block Grant (CSBG) raised different concerns. The audit findings pertained largely to CSD's ability to meet its oversight responsibilities to ensure full accountability by service providers. Specifically, the report cited issues such as the inadequacy of monitoring procedures and the tracking of monitoring findings.

Again, much progress has been made on this front. In accordance with BSA recommendations, CSD has developed a "CSBG ARRA Monitoring Tool" for use in onsite monitoring visits. The tool document is attached at Exhibit D. CSD field staff is scheduled to conduct onsite monitoring visits to 43 agencies between now and September 30, 2010 when the program concludes. The selection criteria for onsite monitoring visits consist of the following:

- Agencies required to be monitored under federal and state CSBG statutes;
- Agencies identified on the basis of risk assessment as described above; and
- Agencies selected from a group of providers whose CSBG ARRA allocation exceeds 50% of their annual CSBG allocation.

CSD will monitor the largest providers as well as those indicating significant risks. See attached the CSBG Preliminary Monitoring Schedule at Exhibit C. Additionally, desk reviews will be conducted for agencies not scheduled for onsite visits.

Risk assessment is an important aspect of oversight responsibility. CSD has, at the direction of the Federal Office of Community Services (OCS), conducted a risk

assessment of all sub-grantees. The OCS Directive and Risk Assessment Assurance Template are attached as Exhibits E and F.

Regarding monitoring follow-up, CSD Information Technology staff, in conjunction with program staff, is currently developing an automated tracking system to better manage findings, including expenditure, programmatic and other monitoring issues. The system will incorporate automated notification of approaching due dates to ensure timely responses.

Department Fiscal and Administrative Procedures

The Department of Community Services takes seriously its fiduciary responsibility to ensure that taxpayer dollars are utilized appropriately and effectively. CSD has addressed BSA audit findings to ensure a separation of duties among accounting staff, and more generally has addressed the broader administrative issues of internal procedures and desk manuals for the documentation of procedures. To this end, CSD has contracted with Cooperative Personnel Services (CPS) to assess the Department's needs and to assist in developing procedures, desk manuals and similar materials. Working with CPS will ensure that CSD has procedures and processes thoroughly documented to manage its fiscal systems effectively. See the CPS Project Description attached at Exhibit G.

ARRA requires audit practices and procedures in addition to CSD's standard audit processes. CSD has incorporated ARRA requirements into its standard audit procedures to further strengthen our ability to ensure the appropriate use of federal grant dollars. CSD has a duty to ensure that use of these funds are maximized, not just for the sake of taxpayers, but above all, for the sake of the low-income Californians whom we are committed to serve.

I am proud of the Department's achievements to date. We appreciate this opportunity to provide you with an update on our progress. Thank you for your valuable recommendations that have assisted CSD in our ongoing efforts to maximize the effectiveness of ARRA programs for the benefit of the people of California.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lloyd Throne".

Lloyd Throne
Director